

WRITTEN STATEMENT OF DENNIS MILLER
ON BEHALF OF
MIDWEST WIRELESS AND THE RURAL CELLULAR ASSOCIATION

**HOUSE RURAL CAUCUS TELECOMMUNICATIONS TASK FORCE BRIEFING ON
TELECOMMUNICATIONS CHALLENGES FACING RURAL AMERICA**

FEBRUARY 15, 2006

INTRODUCTION TO MIDWEST WIRELESS AND RCA

I am Dennis Miller, President and CEO of Midwest Wireless, a wireless service provider serving rural Minnesota, Iowa and Wisconsin. I am also a Board Member of Rural Cellular Association (RCA), the trade association for approximately 100 of the nation's smallest rural wireless providers.

Rural Cellular Association represents the interests of approximately 100 small and rural wireless licensees providing advanced wireless telecommunications services to approximately 14.6 million people in more than 135 rural and small metropolitan markets. RCA members live, work and play in the rural communities they serve.

I am also Chairman of CTIA's Small Operators Subcommittee.

Based in Mankato, Minnesota and owned by a group of independent telephone companies, Midwest Wireless serves approximately 440,000 wireless customers throughout Southern Minnesota, Wisconsin and Iowa and employs over 650 people. The vast majority of our service area is rural and sparsely populated.

In the many decades since rural wireline networks were in their infancy, universal service subsidies have helped carriers construct vital infrastructure that underpins our nation's telecommunications network. In the Telecommunications Act of 1996 ("1996 Act"), Congress recognized that the future of rural America depends largely on deployment of wireless telecommunications infrastructure that allows consumers to have choices in advanced services that are similar to those available in urban areas. By permitting wireless carriers to access universal service funding to construct network infrastructure in areas that would not otherwise support the investment, Congress has opened the door to rural consumers having the health, safety, and economic development opportunities that are critical to bridge the technology gap between urban and rural America.

As a member of RCA, we welcome the opportunity to provide comments on the draft bill by Congressmen Lee Terry and Rick Boucher. This testimony will also examine the current USF system and explore ways in which it can be improved. In particular, Midwest Wireless' ability to participate in the USF high-cost program has brought overwhelming benefits to the rural residents we serve. This document will highlight some of those benefits, dispel some of the outstanding myths concerning the USF high-cost fund and make policy recommendations about universal service we believe will best benefit rural communities.

OVERVIEW

1. **Under the current system, rural wireless consumers who contribute to the fund are not seeing the benefits that they want and deserve.**
 - Wireless consumers now contribute roughly **\$2.5 BILLION per year** to the federal universal service system or **34% of the total fund**.
 - Wireless carriers that are designated as Competitive Eligible Telecommunications Carriers (“CETCs”) have drawn just over **\$1 BILLION IN THE AGGREGATE SINCE 1996**, and in 2005 they drew roughly 10% of the total fund (\$700 Million).
 - Incumbent Local Exchange Carriers (“ILECs”) draw roughly **\$3 BILLION** per year, or roughly **50% of the total fund**, to maintain networks that are not growing. In the aggregate, we believe that consumers have spent roughly **\$19 BILLION** since 1996 to subsidize high cost support to wireline networks. Rural wireless consumers do not see any benefits from the vast majority of the dollars they contribute.
 - Consumers served by rural wireline carriers pay in only **3.8% of the total fund**.

Bottom line: Congress must make it a priority to provide federal high-cost support to fund wireless infrastructure development for rural consumers who desperately want high-quality wireless networks. The health, safety and economic development benefits that flow from investing in mobile wireless communications infrastructure **ARE PRECISELY WHAT UNIVERSAL SERVICE SHOULD BE FUNDING IN RURAL AMERICA.**

2. **CETCs are demonstrating to the states that support is being used to build infrastructure in areas that would not otherwise see investment.**
 - Anybody who uses a wireless phone in rural America understands the huge difference in service availability and service quality compared to urban areas.
 - RCA members understand how important it is for consumers to have access to mobile wireless services.
 - RCA members have constructed new cell sites serving unserved and underserved communities in their ETC service areas that would not have been constructed without support.
 - The vast majority of states now require CETCs to report how support is being used. **These reports provide accountability that is not present for wireline carriers.** Vermont, West Virginia and now Minnesota provide good examples of states that have gotten the reporting requirement right.

Bottom line: Wireless carriers are demonstrating that their support is being used to drive infrastructure investment in rural areas that would not otherwise receive such investment

and we would be pleased to deliver to the committee copies of reports of what Midwest has done.

3. The current system of providing support requires wireless carriers to make efficient investments but allows wireline carriers to make inefficient investments.

- Wireless carriers can only get support after, (1) we build facilities, and (2) we get a customer.
- Wireless carriers are not guaranteed a return, so if we make a poor investment and only get a few customers, we are punished.
- Support to wireless carriers in all areas is currently capped by the number of available customers in a particular area.
- In states like Washington, that have targeted support to rural areas, several wireless carriers are fighting for a limited pool of support dollars in rural wire centers, but receive no support for serving urban wire centers.
- I am advised that wireline carriers operate on a “cost-plus” system that pays more as they spend more and can cause extreme inefficiencies, especially for small carriers.
- I am also advised that in many states and at the federal level, wireline carriers only report what has been spent, not whether it is needed to provide service.

Bottom line: Wireless carriers are concerned that ALL carriers be accountable.

Moreover, consumers should only subsidize efficient investments.

4. Consumers are increasingly demanding wireless services and deserve access to the services they have paid for.

- In 2006, businesses will spend more on wireless services than on wireline according to a study released in January by In-Stat. It is estimated that the demand for wireless data will grow an average of 18% per year, through 2009.

Bottom line: Congress should consider policies that guarantee rural communities keep pace with urban areas in the technology race.

TESTIMONY

Recently, the Consumer Electronics Association released a study that 17% of consumers who purchased their wireless phone within the past 90 days are relying solely on their wireless phones for voice service.¹ This is a significant jump from earlier reports that wireless substitution was roughly 9%. We believe that wireless is the future for voice communications and that sound public policy will encourage infrastructure development of wireless networks in rural areas that need support.

There is no sound public interest reason to deny rural consumers the technology they prefer. In reality, I can't think of anything that will widen the gap between rural and urban areas, and accelerate the brain drain out of rural areas more than attempting to control growth of the fund by limiting wireless carrier access to universal service funds.

It is a simple fact that wireless carriers cannot effectively compete in high-cost areas if only the wireline carrier is subsidized. Wireline carriers have the customers, the support, and a mature network. Wireless carriers need the same system of support to construct networks in areas that would not otherwise receive the level of investment needed to deliver high-quality services. Every time we construct a new cell site in an underserved area, consumers in roughly 144 square miles of land area have access to 911, E-911, and all of the service offerings that mobile wireless can provide.

Universal service must grow with the reality that consumers are best served by competition. The best thing Congress can do is insist that the FCC adopt rules for distributing federal universal service support that are competitively and technologically neutral. In addition, the FCC must develop mechanisms for verifying that carriers are using support for building and maintaining networks. Finally, carriers who gain customers must gain support and those who lose customers must lose support. The "cost-plus" mechanism that allows wireline carriers to invest inefficiently must end.

With respect to legislation being proffered by Congressmen Boucher and Terry, we applaud the inclusion of broadband as a supported service. We encourage the Congress to ensure that the FCC and the states enact competitively neutral rules for contributing to and drawing from the fund to provide broadband services. Today, we are seeing the proliferation of uses for mobile broadband services and rural consumers need these tools to compete with their counterparts in urban areas.

We are concerned about the proposal to provide support to each class of carrier, based on its own costs. After much careful consideration, the FCC rejected this proposal years ago, and for good reason. After a transition period, support must be provided on the forward-looking costs of operating an efficient network, similar to the system in place today for the large "non-rural" carriers. We support this because it does not reward inefficiency and because urban consumers should not be subsidizing basic services in an amount that exceeds that of an efficient provider.

We also understand that the bill proposes to require carriers use their own facilities to make universal services available throughout a service area. The 1996 Act requires carriers to use their own facilities, or a combination of facilities and resale. This new

¹ "The Wireless Purchasing Study: Measuring Satisfaction and Loyalty", Steve Koenig, Senior Manager, CEA.

requirement would be one that wireline carriers could not meet in that their facilities only provide service at very small points at the end of their networks. We think the better course is for Congress to continue current policy, which prohibits carriers from receiving high-cost support when they serve a consumer solely via resale. As a result, each carrier has an incentive to serve high-cost consumers with its own facilities in order to capture both consumer and support dollars.

A proposed requirement for competitors to offer free minutes of local exchange service comparable to that offered by other communications service providers in the service area is also problematic. Regulating in this area is fraught with complications, in no small part because competitive voice offerings from wireless carriers already exceed the value proposition offered by wireline carriers by a significant margin for most consumers. We offer mobility and wide local calling areas that ILECs do not.

We think the better course is to permit consumers to choose the service they value most and focus on making each carrier accountable for the funds they get – to drive the infrastructure needed to provide benefits and eventually minimize the amount of support needed to serve rural consumers.

In order to clear the record, we review below several myths that have been proffered to date, and our response to each.

MYTH: WIRELESS CARRIERS THAT ARE CETCs ARE RESPONSIBLE FOR “BALLOONING” OR “EXPLODING” THE HIGH-COST FUND.

FACT: A close examination of the facts about the high-cost fund shows nothing could be further from the truth.

We have heard that universal service and in particular, the “high-cost fund” is going bankrupt because of the increase in the number of CETCs. More alarming perhaps is the allegation that soon there will be no money left in the fund to sustain telephone services in rural areas, again as a result of CETC designations.

The most recent figures available show the high-cost fund provided \$3.4 billion in 2004. Of the roughly \$3.4 billion in federal high-cost support distributed in 2004, wireless CETCs received approximately \$333 million, or around 10 percent of the total.² Final figures for support provided in 2005 are not yet available, however we estimate the amount of support to CETCs to be approximately \$700 million. Without a doubt, support to new entrants has risen significantly on a percentage basis, notably because it began at zero.

Since 1999, support to ILECs, which operate mature networks that typically are not growing, has gone from approximately \$1.7 billion per year to approximately \$3.15 billion per year, a total increase of roughly \$1.4 billion per year.³ Of that increase, roughly \$620 million per year represents a real dollar increase in funding. The rest represents support that the FCC has transferred from carrier rates into the universal service program.

The following two tables illustrate ILEC and CETC draws:

² Source: Universal Service Administrative Company Annual Report, 2004. Available at http://www.universalservice.org/_res/documents/about/pdf/2004-annual-report.pdf

³ See *id.*

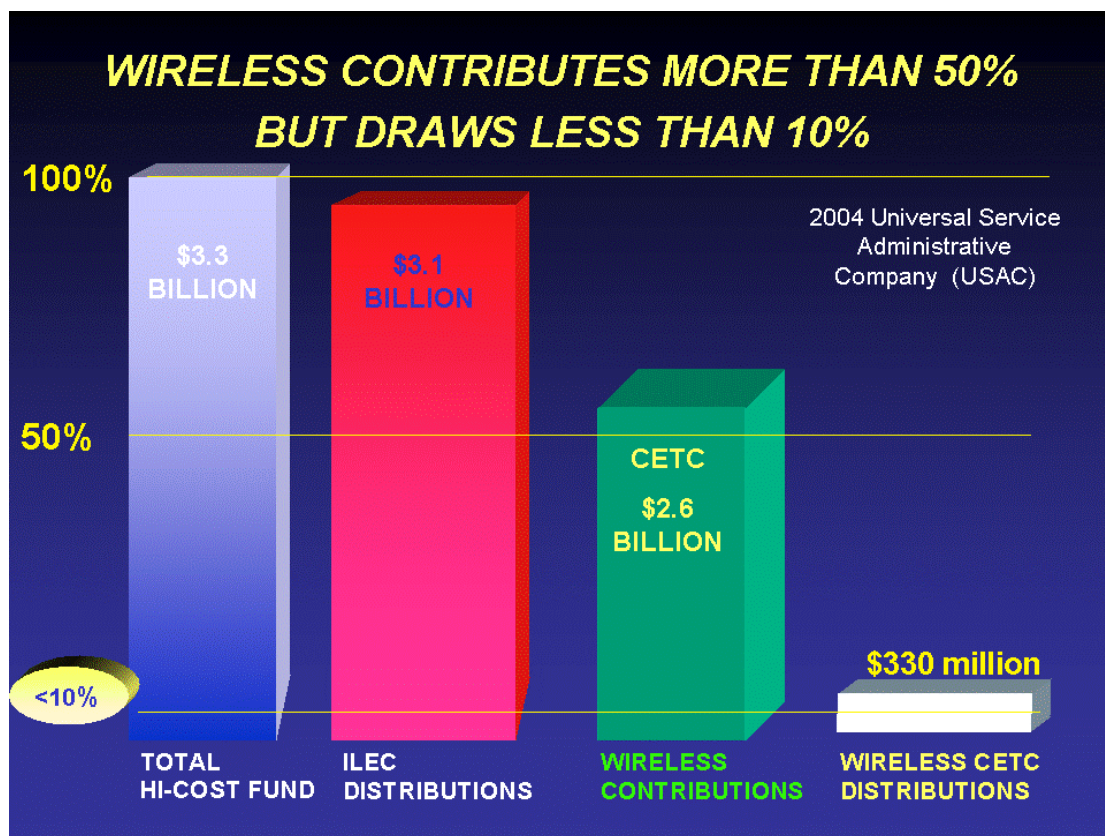


Table 19.5
High-Cost Support Received by ILECs and CETCs
(In Millions of Dollars)

	ILECs	CETCs	Total	Percent CETCs
1996	\$1,188	\$0	\$1,188	0.0 %
1997	1,263	0	1,263	0.0
1998	1,690	0	1,690	0.0
1999	1,717	1	1,718	0.0
2000	2,233	1	2,235	0.1
2001	2,575	17	2,592	0.7
2002	2,889	46	2,935	1.6
2003	3,142	131	3,273	4.0
2004	3,155	333	3,488	9.5

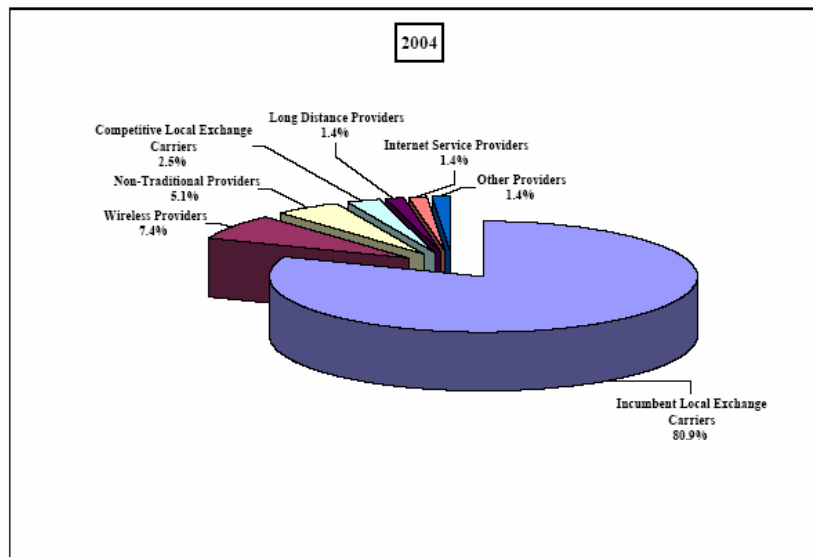
Notes: ILECs is an abbreviation for incumbent local exchange carriers. CETCs is an abbreviation for competitive eligible telecommunications carriers. CETCs include both wireless and wireline carriers.

Source: National Exchange Carrier Association (1996-1997).

Universal Service Administrative Company (1998-2004).

While CETCs have collected a total of approximately \$529 million in high cost support through 2004, ILECs have received roughly \$19 billion in federal universal service subsidy during the same time period. In many states, rural ILECs receive substantial support from state universal service programs as well. Given that ILECs are not permitted under the FCC's rules to invest support in DSL technology, and given that there is little or no oversight of their expenditures, it begs the question, "How is support being used to benefit consumers?"

Chart 19.2
Universal Service Support Received by Service Provider Type



Source: *Trends in Telephone Service*. Industry Analysis and Technology Division, Wireline Competition Bureau, Federal Communications Commission. 2005. Available at www.fcc.gov/wcb/iatd/trends.html

Growth In Support To Competitive Carriers Is The Predictable Result Of Sensible USF Disbursements

Funding to new competitors has increased – it is a predictable outcome of sensible universal service policy. Congress must continue to permit competitive entry into rural areas and get beyond short-run “growing pains” in order to achieve the maximum benefits to rural consumers. By continuing to provide appropriate incentives for new telecommunications providers to invest in high-cost areas, rural customers will receive increased quality and quantity of services at lower prices.

MYTH: WIRELESS CARRIERS DON'T PAY THEIR FAIR SHARE INTO THE HIGH COST FUND.

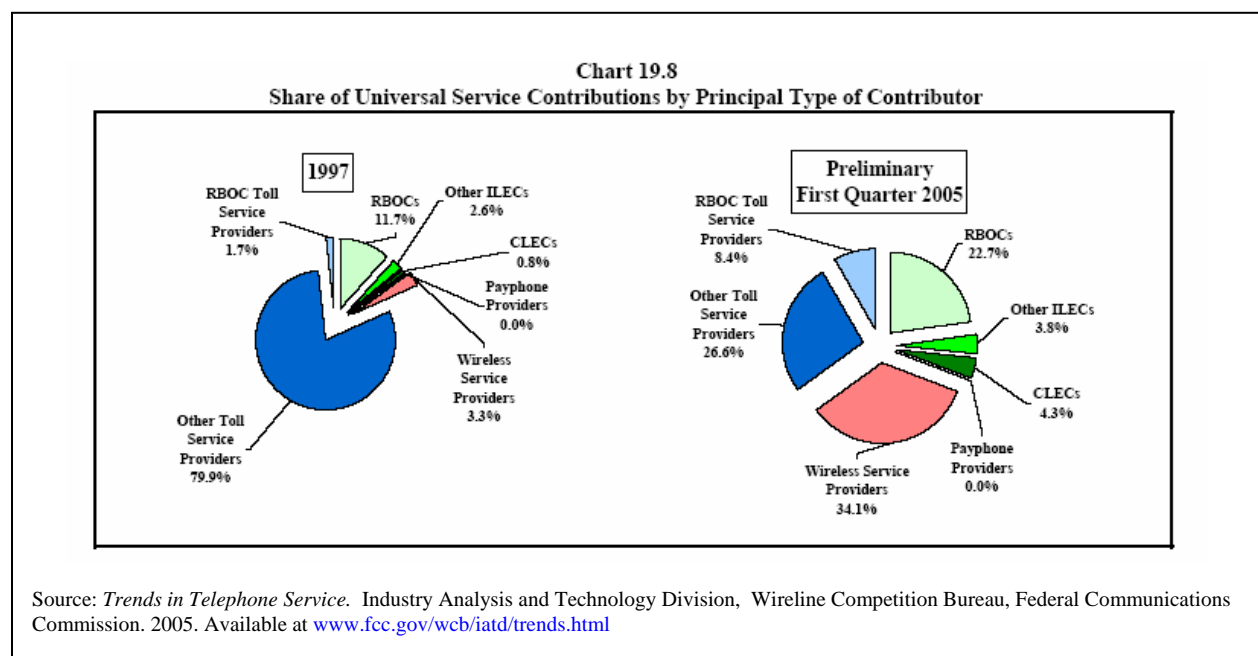
FACT: WIRELESS CONSUMERS, who draw just over 10% of the total fund (approximately \$330 million) now contribute over 34% of the total fund, or roughly \$2.6 BILLION per year.

RURAL WIRELINE carriers, who draw 50% of the total fund (approx. \$3 Billion) contribute only 3.8% of the total fund.

Make no mistake – the current system is unfair to wireless consumers who want to receive service quality and service choices that are reasonably comparable to those that are available in urban areas – *as promised by Section 254 of the 1996 Act*.

With over 200 million wireless consumers, each of whom pays in roughly \$1.00 per month, wireless now contributes roughly \$2.5 billion each year and that number is rising steadily. Yet, wireless CETCs only draw approximately 10% of those funds to assist with deploying and expanding wireless service in rural areas.

While the large wireline carriers such as Verizon, BellSouth, and AT&T contribute 22.7% of the total funding, other ILECs, which include rural wireline carriers, contribute only 3.8%. The table below illustrates each class of carriers' contributions to universal service:



We can think of no better use for federal high-cost support than the investment in new infrastructure by carriers willing to demonstrate that support is being properly invested, to provide rural consumers with high-quality service and service choices that are comparable to those in urban areas. **Any legislation must accelerate wireless infrastructure development in rural areas – not impede it.**

MYTH: SUPPORTING WIRELINE AND WIRELESS CARRIERS ON THEIR OWN SEPARATE COSTS WILL CURB FUND GROWTH

FACT: Supporting each class of carrier on its own costs will retard or prevent competitive entry, will be extraordinarily expensive to implement, will require regulators to pick winners, and will ultimately cost the fund more than the current system.

While supporting carriers on their own costs is a catchy mantra, the FCC rejected it after years of rulemaking proceedings. The FCC's files contain testimony of reputable economists who have also rejected this approach. If, in fact, wireless technology is more efficient, then it is not fair to require urban consumers to contribute more than is needed to fund an efficient provider of services.

Under the bill's proposal to fund each carrier on its own costs, wireless competitors, in the short term, are going to draw substantially more from the universal service fund than they do today. A "build it and we'll pay for it" approach was fine when simply connecting houses to the network was the goal, but if the goal of providing rural consumers with modern technology is to be realized, we have to find ways to support efficient providers of services.

We think the better approach is the one the FCC selected. Pay competitors only the same "per line" support as the incumbent, and only pay after they first build facilities and get a customer. Under this mechanism, support to all competitors is capped by the number of available customers and competitors must fight for customers and support dollars. The market punishes imprudent investments by not providing enough support and customer dollars to justify the risk capital invested. My discussion on disaggregation below explains how newcomers can be rewarded while at the same time incumbents can be protected.

We also note the administrative costs of paying each carrier on its own costs. As new technologies such as satellite, Wi-Max, and unlicensed spectrum providers line up to enter rural areas, presumably the FCC would have to develop a cost model for each to determine the appropriate level of support. The cost of doing so would be enormous and would not deliver the benefits that the current system does.

MYTH: YOU CAN CONTROL GROWTH IN THE FUND BY LIMITING THE NUMBER OF COMPETITORS IN A SERVICE AREA

FACT: Limiting the number of carriers in a service area robs rural communities of the benefits of competition.

Multiple carriers in a service area competing for customers results in cheaper, higher quality voice and broadband services.

Policies that limit the number of carriers who may receive USF support in a given area are contrary to the goal of allowing Americans to receive wireless voice and broadband services in rural areas. The universal service program already has protections in place to cap growth and expenditures in a service area:

- The current distribution system caps the amount of federal support available to wireless carriers serving an area, while NOT capping support to rural incumbent landline carriers.
- The amount of funds available in any high-cost area is capped by the number of customers. In other words, wireless competitors can only receive support if they are successful in getting a customer. When more than one wireless competitor is designated in an area, they must fight for consumer revenue and support.
- Moreover, since the FCC's rules prohibit support to be paid when a customer is served via resale, wireless CETCs must first construct facilities in high-cost areas before getting any support.

The current system, when combined with disaggregation of support, discussed below, are key elements in achieving the dual goals of advancing universal service and promoting competition in rural areas.

MYTH: WIRELESS PROVIDERS “CREAM SKIM” AREAS WHERE IT IS FINANCIALLY BENEFICIAL TO OPERATE

FACT: Current high-cost fund regulations prevent cream skimming.

We have heard this concern expressed in many forms. The most common is the “pole in the tent” analogy, that is, if wireless carriers are allowed to skim off the most lucrative customers, who represent the tent pole, then incumbent wireline carriers could go out of business having to serve the remaining low-margin customers, and the tent will collapse.

My personal experience teaches that a wireless carrier, indeed any newcomer, is going to chase the cream – the high-end customers, the low-cost areas, and the most lucrative markets *irrespective whether they are designated as ETCs*. In fact, without ETC designation, a

newcomer is free to do just that without any obligation to extend service to low margin or high-cost areas. The only reasonable conclusion that can be drawn is that cream skimming can only be minimized by placing newcomers on a level playing field with incumbents and adopting rules to stop newcomers from getting universal service support in those areas that are low-cost for incumbents, such as population centers in rural areas.

Fortunately, the FCC set up rules five years ago to protect ILECs from subsidized competition in their most lucrative areas. Wireline carriers participated in and approved of such rules, which permit them to redirect support outward to their highest-cost areas and remove it from their “cream” areas. That process, known as disaggregation, is working in many areas.

We recommend Congress consider Washington state as an example of how to reform USF.

Along with the cooperation of rural ILECs, all carriers have targeted or “disaggregated” universal service funds to the highest-cost areas within the state. As a result, those designated in low-cost areas receive no support and those designated in high-cost areas receive a predictable amount of support. Targeting funds in this manner has kept growth in the fund down while delivering services where they are needed most.

In Washington, wireless competitors draw only 32% of the total support in the state, compared with 68% drawn by wireline carriers. Wireless carriers are drawing less despite the fact their networks require significant capital expenditures to serve throughout the state. They are only rewarded when they get a customer in high-cost areas, which means they have to build facilities in the outlying area in order to get their first dollar of support.

Disaggregation also solves the problem of defining service area boundaries for newcomers. When an area is disaggregated, regulators have more flexibility, because if a newcomer serves predominantly low-cost areas, it will receive a lesser subsidy. If it serves higher cost areas, it will receive higher levels commensurate with the type of area being served.

Finally, it is important to note that under the current system, when more than one wireless competitor is designated in an area, they must fight for consumer revenue and support and sparsely populated areas will not yield enough “per line” support to allow multiple carriers to construct facilities.

We urge Congress to recognize the very useful tools developed by the FCC to more accurately target support to high-cost areas so as to minimize harm to ILECs and properly reward competitors willing to invest in areas that need it most.

MYTH: WIRELESS CARRIERS ARE NOT USING FUNDS TO IMPROVE SERVICE TO RURAL AMERICA AND MORE OVERSIGHT IS REQUIRED.

FACT: Wireless carriers are not only using support to improve their networks but in many, if not most states, they are much more accountable to than are wireline carriers.

We have heard ill-informed statements that support to wireless carriers flows “straight to the bottom line”, or is “all margin”. Such statements are true of all carriers, because support goes to the bottom of an income statement. Of course, as we were taught in Accounting 101, those funds must then be transferred to our balance sheet in the form of investment in assets or appropriate expenditures.

My experience at Midwest is typical of other RCA members. When we first obtained CETC status, we knew that the spotlight would shine on us and that we would be expected to demonstrate that support is going to improve our networks in ways that would not otherwise have happened without support. We expected state commissions to examine our use of support, and we have been more than willing to provide reports as to our activities each year prior to the state recertification to the FCC each October 1.

Each state handles the process differently. Most require one annual report showing funds received over the past year, how they were used, along with a projection of support for the coming year and how such funds will be used. A few, like Mississippi, require quarterly reports, which RCA member Cellular South provides regularly. Although the information in such reports as to how future support will be used is kept confidential, we are pleased to provide examples of what has been done with support.

In Minnesota, Midwest has accelerated our construction of new cell sites, significantly improved our network, upgraded equipment, including backup plant, and delivered new service to numerous communities that would not otherwise have received investment. Communities in rural Minnesota receiving new or improved service include Lafayette, Lester-Prairie, Morgan, Echo, Tyler, Clarkfield, Jeffers, Lakefield, Edgerton, Winnebago, Kiester, Elmore, Mapleton, Eagle Lake, Preston, Houston, Harmony, Goodhue, and Spring Grove.

Many of these communities are very small and our service to them includes significant farm lands that permit the use of our devices in the truck and on the tractor. To anyone who understands the risks agricultural workers take on every day this new coverage is no small matter.

John Kleinschmidt, City Clerk in Morgan, Minnesota, coordinates communication for the local ambulance, police and utilities. “We are all very happy. We use the phones to communicate with police, ambulance and utility employees and there is just no comparison between then and now in the signal – it’s a great improvement.”

We keep track of testimonials from consumers in areas where we deliver new services. For example, Mike Peters, who runs a van service in Harmony, Minnesota, says the new tower is “A huge help. I’m on the road all the time and it’s an absolute necessity for my customers to reach me. The coverage is excellent now.”

Amy Geiwitz of Houston, Minnesota, who runs a day care center, says “Now when I go walk with the kids, I can take my phone with me and their parents or my kids can get a hold of me. It’s great. We needed this tower.”

Another RCA member, Rural Cellular Corporation, has heard from the Maine Sheriffs Association that they depend on cellular phones to do their jobs properly and to protect both citizens and themselves. To cite just one example, when a sheriff gets a domestic disturbance call, he instructs the dispatcher to provide the phone number at the residence. He then calls while on his way to get a sense of the situation, for example whether there is alcohol or firearms involved. This gives him a better understanding as to what to expect when he knocks on that door.

Our experience is just a small portion of what other RCA members can report. To use the example of Rural Cellular Corporation in Maine, they have built new cell sites that would not have been constructed in towns such as China, Rumford, Bethel, Fort Kent, and Strong. If anyone gives the impression that wireless carriers are not using support in the manner it was intended, they have not looked at our company or the other RCA members that are CETCs.

In sum, wireless carriers are using support to drive infrastructure development in rural areas. We share concerns that support be used properly, and urge Congress to look carefully at all carriers. As we understand it, over 400 ILECs report no costs and have almost no accountability as “average schedule” companies. In many states, we have seen reports that demonstrate many carriers earn excessive rates of return on investment without having undergone an examination or audit for a decade or more.

BENEFITS OF USF TO RURAL AMERICA

High-Cost Support for Wireless Consumers Provides Vital Health and Safety Benefits to Rural Areas

In closing, we must note that in urban areas, it is taken for granted that one can complete a wireless call in an emergency. In a very short time, urban consumers' expectations for wireless have risen enormously, to the point where the failure to complete an important health or safety call is newsworthy.

In many rural areas, expectations are often very different. Consumers living in these areas understand that wireless phones work in larger towns and on major roads, but might not work as well in rural terrain. Although things are changing, many rural consumers have traditionally seen mobile phones more as ancillary communications tools, rather than devices that can be counted on to provide primary telephone service.

The best thing the FCC and Congress can do to protect the health and safety of rural Americans is to ensure that critical wireless infrastructure continues to be built out in rural communities. **The high-cost fund has provided the incentive to invest in better technologies and services that ultimately result in improved emergency communications.** Nevertheless, as more people come to rely on the versatility and convenience of wireless technology, the expectation for improved wireless services will grow in these communities.

We can think of few achievable goals more important than driving investment into rural areas that will improve the infrastructure needed to complete emergency calls. Encouraging wireless carriers to become CETCs and ensuring that funds are spent on network construction is critical to delivering this vital benefit to rural America.

High-Cost Support in Rural Areas Drives Economic Development

As a rule, our nation's rural areas have long trailed cities in terms of economic development. **Use of high-cost support to improve infrastructure has a significant economic impact on small communities** and is a key to closing that gap. Today, many companies and people consider rural areas as more attractive places to locate and to live and one of the major factors involved in selecting a community is the quality of its telecommunications infrastructure.

Wireless service is a very important factor in the equation. More and more companies and people today rely on wireless phones to improve efficiencies and manage their businesses. The examples we've cited above are just the tip of a much larger story. As economies around the world become more interdependent, our rural areas have to compete not only with American business, but with foreign business as well. Universal service funds, used properly to improve our infrastructure, will enable America to compete better on the world stage, with countries like Japan and South Korea, who today are far ahead of us in both broadband and mobile wireless service development. We can think of no better use for federal high-cost support than to provide the tools necessary for our rural areas to compete.

RCA POLICY RECOMMENDATIONS

Rural communities benefit the most from policies that encourage competition and improvements to existing telecommunications services. **Any policy that attempts to stall the entry of new providers in rural areas retards the development of wireless infrastructure and ultimately will widen the gap between rural and urban areas. And we must question the motives of those who continue to oppose the efforts of wireless carriers to benefit proportionately from the USF.**

RCA believes consumers in rural areas deserve the same kinds of health, safety, and economic development benefits that flow from having access to advanced telecommunications services as are available in urban areas.

Therefore we urge Congress to include the following principles in any USF reform measure:

- Universal service system should not guarantee a market outcome for any carrier or class of carrier.
- All federal and state universal service rules must be competitively neutral.
- All carriers who receive universal service support must demonstrate that support is actually being invested as required by the Act and the FCC's rules.
- Support should be distributed based on the forward-looking cost of operating the ILEC's network. Support should also be distributed equitably among all technologies and carriers without continuing a historical preference for ILECs.
- Support should be targeted to the neediest of areas. Congress should require ILECs to "disaggregate" or target universal service support to the highest cost areas so that competitors do not receive subsidies in areas that are low-cost to ILECs.

Most important, wireless consumers pay into the fund and thus deserve the benefits that Congress intended to deliver when it passed the 1996 Act. Therefore, Congress and the FCC should continue to allow rural wireless carriers who have CETC status to receive high-cost support from the universal service fund in a competitively neutral fashion. Doing so will open rural markets to competition, reign in universal service fund growth and drive voice and broadband services to rural Americans.